2011 REGULAR SESSION
ACTUARIAL NOTE HB 569

House Bill 569 HLS 11RS-853 **Reengrossed with House Floor Legislative Bureau Amendment #2211** **Author: Representative Jeffery J. Arnold** **Date: June 10, 2011** **LLA Note HB 569.03** **Organizations Affected:** **Harbor Police Retirement System For the Port of New Orleans** **RE INCREASE APV**	**The Note was prepared by the Actuarial Services Department of the Office of the Legislative Auditor.** Paul T. Richmond **Paul T. Richmond, ASA, MAAA, EA** **Manager Actuarial Services**

<u>Bill Header:</u> RETIREMENT/LOCAL: Relative to the Harbor Police Retirement System for the Port of New Orleans makes comprehensive changes to the provisions of such system.

<u>Cost Summary:</u>

Actuarial Cost/(Savings) to Retirement Systems and OGB	Actuarial Cost
Total Five Year Fiscal Cost	
Expenditures	Increase
Revenues	Increase

<u>Estimated Actuarial Impact:</u>

The chart below shows the estimated increase/(decrease) in the actuarial value of benefits, if any, attributable to the proposed legislation. Note: it includes the present value cost of fiscal costs associated with benefit changes. It does **<u>not</u>** include present value costs associated with administration or other fiscal concerns.

<u>Actuarial Cost (Savings) to:</u>	**<u>Increase (Decrease) in The Actuarial Present Value</u>**
All Louisiana Public Retirement Systems	Increase
Other Post Retirement Benefits	$0
Total	Increase

<u>Estimated Fiscal Impact:</u>

The chart below shows the estimated fiscal impact of the proposed legislation. This represents the effect on cash flows for government entities including the retirement systems and the Office of Group Benefits, as well as other fiscal concerns.

EXPENDITURES	**2011-12**	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**5 Year Total**
State General Fund	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Agy Self Generated	Increase	Increase	Increase	Increase	Increase	Increase
Stat Deds/Other	0	0	0	0	0	0
Federal Funds	0	0	0	0	0	0
Local Funds	Increase	Increase	Increase	Increase	Increase	Increase
Annual Total	Increase	Increase	Increase	Increase	Increase	Increase

REVENUES	**2011-12**	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**5 Year Total**
State General Fund	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Agy Self Generated	Increase	Increase	Increase	Increase	Increase	Increase
Stat Deds/Other	0	0	0	0	0	0
Federal Funds	0	0	0	0	0	0
Local Funds	0	0	0	0	0	0
Annual Total	Increase	Increase	Increase	Increase	Increase	Increase

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<u>Bill Information:</u>

Current Law

The Port of New Orleans has sponsored the Harbor Police Retirement System (HPRS) since the plan began in 1971. Employees of the Port who are employed as Harbor Police officers are allowed to participate in this System. These are the only persons currently allowed to become members.

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Proposed Law versus Current Law

HB 569 makes numerous changes to the sections of Title 11 pertaining to "Provisions Affecting More Than One System" and pertaining to the "Harbor Police Retirement System." Although many of the proposed changes are remedial in nature, many others provide significant benefit enhancements.

Substantive changes associated with HB 569 are summarized below.

1. New Plan for Members Joining HPRS on or after July 1, 2011.

   HB 569 creates another tier of benefit provisions for police officers who become members of the system on or after July 1, 2011. These provisions are loosely based on the Hazardous Duty plan applicable to members of LASERS employed in hazardous duty positions. Proposed HPRS provisions are similar, but not identical, to the LASERS Hazardous Duty plan.

2. Cost of Living Adjustments

   HB 569 makes a technical adjustment to the actuarial rate of return that must be achieved in order for a COLA to be granted. The bill also adds to the thresholds that must be attained for COLAs to be granted.

3. Increased Employee Contributions

   HB 569 increases the employee contribution rate from 7.0% to 9.0%.

4. Increased Employer Contribution Rate

   HB 569 increases the maximum employer contribution rate from 13% of pay to 20% of pay. The employer contribution rate necessary to satisfy actuarial requirements and to ensure systematic funding of the pension plan is 60.12% of pay based on the June 30, 2010 actuarial valuation for the plan. On June 30, 2009, the required employer contribution rate was 43.95% of pay.

5. Errors and Omissions

   Significant benefit calculation errors have been made over the entire 40 year life of the plan. Many of these errors affect former members who are deceased or who have collected erroneous benefit amounts for a long period of time. The HPRS has developed a methodology to correct as many of these errors as possible without creating undue harm to members who have come to rely on these payments. HB 569 provides legislative authority to implement the corrections recommended to and approved by the HPRS board of trustees.

Implications of the Proposed Changes

HB 569 makes remedial and substantive changes to the HPRS benefit structure.

<u>Cost Analysis</u>

Analysis of Actuarial Costs

Retirement Systems

The actuarial cost of HPRS will increase as a result of HB 569. The effects on actuarial costs for each of the items identified under proposed law are summarized below:

1. New Plan for Members Joining HPRS on or after July 1, 2011

   Actuarial savings will occur relative to persons who are not yet members of the retirement system. The savings cannot be quantified.

2. Cost of Living Adjustments

   Actuarial costs will decrease because minimum thresholds for granting COLAs have been raised.

3. Increased Employee Contributions

   The actuarial cost of the retirement system does not change. The cost is merely shifted from the employer to the employee. But for the 20% limit, employer contribution requirements would be reduced.

4. Increased Employer Contribution Requirements

   HB 569 increases the maximum employer contribution requirement from 13% of pay to 20% of pay. This has the appearance of helping the plan to be better funded. However, the employer contribution rate necessary to maintain actuarial funding is 60.12%. Last year the rate was 43.95%. HB 569 increases the employer rate by 7% of pay, but the necessary rate increase for the system to be actuarially funded based on the June 30, 2010 valuation would be 47%.. The maximum limit on employer contributions is still too small to keep the plan solvent.

5. Errors and Omissions

   Numerous errors have occurred in benefit calculations. We have not been provided information that will allow us to compare benefits currently being paid with benefits that will be paid after corrections are made. Therefore we cannot estimate whether these corrections will increase or decrease costs. It is our understanding, however, that there will be a net increase in benefit payments if the corrections proposed by HB 569 are enacted.

6. Amortization of the Unfunded Accrued Liability

   Although the provisions of HB 569 pertaining to the amortization of the plan's unfunded accrued liability are ambiguous and subject to a wide variety of interpretations, its intent at least is to provide for amortization of the UAL over a period of 30 years. HPRS is a very small plan. There are fewer than 40 active members. There are about 40 members receiving benefit payments. The plan could become insolvent before the UAL is fully amortized.

Other Post Retirement Benefits

There are no actuarial costs or savings associated with HB 569 for post-retirement benefits other than pensions.

Analysis of Fiscal Costs

HB 569 will have the following effect on fiscal costs during the five year measurement period.

Expenditures

1. There will be a net increase in expenditures by the HPRS (Agy Self Generated). Benefit payments to existing employees will be larger under HB 569 than under current law (because of the correction of benefit calculation errors) and future payments to new employees will be smaller (these payments will be well beyond the 5 year fiscal cost window).

2. There will be a net increase in expenditures from Local Funds for employer contributions. HB 569 increases certain benefits for all employees and reduces certain benefits for new employees. The increase in benefits will be larger than the reductions in benefits.

Revenues

- HPRS revenues will increase because the Port of New Orleans and employees will be making larger contributions under HB 569 than under current law.

Actuarial Credentials:

Paul T. Richmond is the Manager of Actuarial Services for the Louisiana Legislative Auditor. He is an Enrolled Actuary, a member of the American Academy of Actuaries, a member of the Society of Actuaries and has met the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Dual Referral

Senate	House
[x] 13.5.1 ≥ $100,000 Annual Fiscal Cost	[ ] 6.8(F)(1) ≥ $500,000 Annual Fiscal Cost
[ ] 13.5.2 ≥ $500,000 Annual Tax or Fee Change	[ ] 6.8(F)(2) ≥ $100,000 Annual SGF Fiscal Cost
	[ ] 6.8(G) ≥ $500,000 Annual Tax or Fee Change

HB 596 is dual referred in the Senate because increases in expenditures in any single year could exceed $100,000. The bill is not dual referred in the House because it originated in the House and expenditures are not associated with the State General Fund.